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DEPARTMENT FOR EB/FO, EB/TPP, SCA/FO, SCA/A, AND SCA/CEN
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SUBJECT: AFGHANISTAN - EB ASSISTANT SECRETARY SULLIVAN
PROMOTES RECONSTRUCTION OPPORTUNITY ZONES AND REGIONAL
ECONOMIC COOPERATION

Classified By: Deputy Chief of Mission Richard Norland

11. (U) Meeting attendees from the USG:

Assistant Secretary for Economic and Business Affairs
Daniel Sullivan
OPIC, Deputy Chief of Staff, Dulce Zahniser
State, Bilateral Trade Officer, Mary Beth Goodman
Econ Counselor, Jack Spilsbury
Tradeoff, Robert Newsome

AFGHAN MFA:

Afghan Deputy Foreign Minister Mahmoud Saikal
Executive Assistant, Nasir Andisha

12. (SBU) SUMMARY: EB Assistant Secretary Daniel Sullivan and Deputy Foreign Minister Saikal focused their July 15 discussion on regional economic cooperation, the Afghan investment climate, and particularly the U.S. Reconstruction Opportunity Zone (ROZ) initiative. A/S Sullivan clarified the potential benefits of ROZs and discussed possible GoA roles in developing and realizing them. Depmin Saikal praised President Bush's initiative, but underscored Afghan fears that Pakistan would try to dominate ROZ development at Afghanistan's expense. A/S Sullivan encouraged the Afghans to put forward their own thinking on eligible products and potential locations, in parallel with the work of a USAID study team. On regional integration, Depmin Saikal announced that India will host a Regional Economic Cooperation Conference on Afghanistan November 18-19 in New Delhi to bring together G-8 and SCA governments, as well as a private sector component, to promote investment in regional energy, trade and transit, transport, and agriculture. END SUMMARY

REGIONAL ECONOMIC INTEGRATION AND RECC CONFERENCE IN NEW DELHI

13. (U) Assistant Secretary for Economic and Business Affairs Daniel Sullivan opened his July 15 meeting with Deputy Minister of Foreign Affairs Mahmoud Saikal by emphasizing the importance the USG and the Assistant Secretary attach to

promoting economic reconstruction and development in Afghanistan as a critical element of its security and democratic transition. A/S Sullivan underscored the importance of promoting trade, private investment and regional economic integration. He noted he had just participated in the opening of the Baku-Tblisi-Ceku (BTC) pipeline, which demonstrated how years of concerted efforts in a nearby region had yielded a transnational project benefiting all participating countries.

¶4. (U) Saikal, who heads the MFA's economic division, agreed that regional economic cooperation is a significant GoA foreign policy priority. He announced Afghanistan is working with India on a Regional Economic Cooperation Conference (RECC) focusing on Afghanistan in New Delhi November 18-19. The conference follows the RECC conference organized by the GoA in Kabul in December 2005, with participation by neighboring governments and the U.S. Saikal described the upcoming New Delhi meeting as a huge opportunity for the GoA to push regional economic integration in energy, trade and transit, and transport all covered by the Kabul conference, as well as agriculture, added as a fourth item to the New Delhi agenda. An initial planning meeting has been held and the Indians intend to extend invitations to G8 and regional governments.

(U) Saikal also reported that New Delhi will include a parallel private sector event to promote foreign investment. He said the MFA has asked the Afghan Investment Support Agency to prepare materials detailing specific regionally-focused business opportunities in the four sectors in Afghanistan.

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¶5. (SBU) Saikal noted that Afghanistan had recently joined the South Asian Association for Regional Cooperation (SAARC). The GoA planned to press Pakistan to abide by SAARC free trade provisions and allow the free flow of goods across its territory between Afghanistan and India. (Note: Currently, Pakistan generally prohibits transit of Indian goods destined to Afghanistan. End note.) He also said the GoA was considering whether to formally renegotiate the 1965 Afghan Transit Trade Agreement with Pakistan.

¶6. (SBU) Saikal hoped reconstruction of Afghanistan's Ring Road would foster economic integration with its neighbors, including by enhancing security along the route. He also cited a Tajik power corridor through Afghanistan to provide hydro power to Pakistan, and an Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline, as regional energy proposals the GoA is interested in to develop its role as a "landbridge" between Central and South Asia. On TAPI, he reported interest from India, but said that the contentious India-Pakistan relationship poses a major obstacle to the project. On the investment climate, the Deputy Minister concluded that Afghanistan is enjoying steady economic growth, lowered inflation and a rise in revenue collection that is now paying for over half of the GoA's operating budget. However, the effects of the drug trade and the security issue were negative economic factors, and would require both internal and international solutions.

¶7. (U) Sullivan responded that the US backs Afghan efforts to promote regional economic cooperation. He noted that the recent reorganization of the Department's South and Central Asian Bureau demonstrated the importance Washington placed on strengthening regional ties. Central and South Asia Regional Economic Integration Initiative is a priority for Under Secretary of State Shiner, and the US actively encourages GoA participation in all regional fora, such as the recent TIFA conference in Almaty. The US supports the proposal to bring electricity to Afghanistan from Central Asia, and believes that the development of the Afghan private sector is essential to economic growth.

ENGAGING THE AFGHANS ON RECONSTRUCTION OPPORTUNITY ZONES

18. (C) Saikal praised President Bush's initiative to create Reconstruction Opportunity Zones. He said duty-free access to the US market could help generate jobs and improve security: "Terrorists can't recruit Afghan youth if they are employed." He stated that ROZs could directly promote US and Afghan interests in the war on terror, but emphasized that for the program to truly benefit Afghanistan, the GoA "will insist that any ROZ factories must be on the Afghan side of the border with Pakistan." Saikal said Afghan reconstruction needs were a greater priority than Pakistan's and highlighted political concern within the GoA that Afghanistan must have the lion's share of the ROZ factories to prevent Pakistani control or dominance of the program.

19. (SBU) A/S Sullivan responded that the initiative is meant to be a win-win situation. The objective is for Afghanistan and Pakistan to build cooperative economic linkages that will benefit both countries. He described the economic benefits derived by Jordan from its Qualified Industrial Zones (QIZs) with Israel, on which the ROZ concept is largely based. Likewise, the more recent Egypt/Israel QIZ is already having a positive impact on Egypt's economy. To allow the Afghans to better understand the opportunities presented under the ROZ proposal, Sullivan announced that USAID is prepared to fund a GoA team to travel to Jordan to evaluate its QIZs.

110. (SBU) A/S Sullivan clarified that the U.S. proposal is not limited to establishing a single ROZ location or to the Afghan-Pakistani border region. Most likely, he said, proposed ROZs in Pakistan would be on or near the Afghan

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border, while those in Afghanistan could in principle be located virtually anywhere in the country that made economic sense. He agreed the ROZ program should not be dominated by Pakistan, but stressed that the objective of the ROZs is to ensure benefits for both Afghanistan and Pakistan. He encouraged Afghanistan to fully engage its own thinking during the design phase. He indicated that USAID would be launching a study to help identify geographic areas and products for ROZs in both countries. He anticipated that the study team would arrive in Afghanistan in early September, and stressed the importance of the GoA reviewing its thinking on these questions before the team's arrival.

111. (U) A/S Sullivan pointed out that Afghanistan currently enjoys broad access to GSP preferences for approximately 3000 Afghan-made products for export to the US. He said the GoA should consider which of its products not benefiting from GSP preferences that it would like to export to the U.S. through ROZ factories. He said the U.S. would like to receive a specific proposal from the GoA regarding manufactured products that it wished to be eligible. He reiterated that the ROZs were not envisioned as competition with Pakistan, but rather a joint opportunity for both countries. A/S Sullivan also emphasized that the GoA would need to energetically support the creation of ROZs. Lack of enthusiasm would impact our ability to generate necessary support for the concept, notably with Congress.

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